

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**ROWAN COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2001**

The Auditor of Public Accounts has completed the Rowan County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Excess fees decreased by \$28,044 from the prior calendar year, resulting in excess fees of \$35,354 as of December 31, 2001. Revenues decreased by \$14,950 from the prior year and disbursements increased by \$13,094.

**Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Rowan County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 27, 2003



ROWAN COUNTY  
JACK CARTER, COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants		\$	25,424
Federal Contracts			16,000
State - KLEFPF			30,397
State Fees For Services:			
Finance and Administration Cabinet			25,033
Circuit Court Clerk:			
Sheriff Security Service	\$	25,339	
Fines and Fees Collected		<u>754</u>	26,093
Fiscal Court			37,974
County Clerk - Delinquent Taxes			3,636
Commission On Taxes Collected			175,101
Fees Collected For Services:			
Auto Inspections	\$	5,262	
Serving Papers		15,275	
Transporting Prisoners		<u>22,456</u>	42,993
Other:			
Carrying Concealed Deadly Weapon Permits	\$	3,675	
Deputy Incentive Pay		4,999	
Miscellaneous		3,270	
Add-On Fees		<u>26,347</u>	38,291
Interest Earned			1,155
Borrowed Money:			
State Advancement	\$	60,601	
Bank Note		<u>10,000</u>	<u>70,601</u>
Total Receipts			\$ 492,698

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 121,216
Part-Time Salaries	4,095
Other Salaries	63,309
Overtime	113

Employee Benefits-

Employer's Share Social Security	18,001
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Contracted Services-

Advertising	6,316
Professional Services	9,475
Vehicle Maintenance and Repairs	30,254

Materials and Supplies-

Office Materials and Supplies	14,833
Uniforms	7,541
Cell Phone/Radio/Pager	5,039
Carrying Concealed Deadly Weapon Permits	2,810
Computer Software	2,750

Other Charges-

Conventions and Travel	6,486
Dues	618
Paper Service to Fiscal Court	5,280
Miscellaneous	1,047

Debt Service:

State Advancement	60,601
Notes	10,000
Interest on Notes	185
Vehicle Expense/Lease	4,782
Vehicle Purchase Payments	14,719

Total Disbursements	\$ 389,470
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The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Net Receipts		\$ 103,228
Less: Statutory Maximum	\$ 65,685	
Training Incentive Benefit (HB 502)	<u>2,189</u>	<u>67,874</u>
Excess Fees Due County for 2001		\$ 35,354
Payments to County Treasurer - February 18, 2002	\$ 27,371	
August 19, 2003	<u>7,983</u>	<u>35,354</u>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months of the year and 16.28 percent for the last six months of the year.

ROWAN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2001  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$475,125 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 2001.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,500,000
Uncollateralized and uninsured	<u>475,125</u>
Total	<u>\$ 3,075,125</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 4. Notes Payable

- A. The Office of the County Sheriff is liable for a secured note payable to U.S Bank in the original amount of \$9,767 at an interest rate of 9.0%. The note was for the purchase of a 1994 Crown Victoria cruiser. The note requires 36 monthly payments in the amount of \$312 to be paid in full on July 25, 2002. As of December 31, 2001, the principal balance was \$2,076.
- B. The Office of the County Sheriff is liable for a secured note payable to Morehead National Bank in the original amount of \$20,336 at an interest rate of 7.75%. The note was for the purchase of a cruiser. The note requires 48 monthly payments in the amount of \$495 to be paid in full on July 14, 2002. As of December 31, 2001, the principal balance was \$3,295.

Note 5. Operating Leases

- A. In November 1998, the Sheriff entered into a lease agreement with Firststar Bank for a 1999 Chevy Blazer. The terms of the agreement require 48 monthly payments of \$399. As of December 31, 2001, the balance outstanding was \$3,985.
- B. On April 26, 2001, the Sheriff entered into a lease agreement with General Motors Acceptance Corporation for a 2000 Chevy Blazer in the amount of \$19,613. The terms require 48 monthly payments of \$463. As of December 31, 2001, the balance outstanding was \$ \$18,043.

Note 6. Federal Contract

The Sheriff received \$16,000 from the U.S. Department of Agriculture for providing forest patrol service at the Daniel Boone National Forest.

Note 7. Federal Grant

On January 6, 2000, the Sheriff was awarded a Domestic Violence Enforcement Grant in the amount of \$31,195. The Sheriff spent funds totaling \$25,424 through December 31, 2001, leaving a balance of \$5,771.

## COMMENTS AND RECOMMENDATIONS





ROWAN COUNTY  
JACK CARTER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

December 31, 2001

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On December 10, 2001, \$475,125 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response:*

*We will go to the bank and make sure we have the insurance to cover the money.*

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by employee and distributes checks to employees
- The Sheriff, for proper documentation, examines all other disbursement checks prepared by employee
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's office prepares the bank reconciliation

*County Sheriff's Response:*

*I will make an effort to do those things.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

ROWAN COUNTY  
JACK CARTER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
December 31, 2001  
(Continued)

PRIOR YEAR:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Publish A Financial Statement In Accordance With KRS 424.220

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Rowan County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated August 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 27, 2003

